DOCUMENT RESUME

ED 272 735 CE 044 853

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TITLE The Appropriateness of Entrepreneurial Training in Wisconsin's Employment and Training System. Employment and Training Policy Paper No. 3.
INSTITUTION Wisconsin State Dept. of Industry, Labor and Human Relations, Madison.
PUB DATE Mar 86
NOTE 28p.
PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Adult Education; Business Administration; Business Education; Career Education; *Day Care; Dislocated Workers; Employment Programs; *Entrepreneurship; *Job Development; Job Training; Models; *Small Businesses; *Unemployment
IDENTIFIERS *Wisconsin

ABSTRACT

Small businesses play a strong role in generating new jobs. Policymakers have been encouraged to find ways to foster and support their development, especially by linking entrepreneurial training to the existing employment and training system. The purpose of this paper is to provide a background and a focus for further discussion of entrepreneurial training in Wisconsin. Programs that have encouraged and/or trained entrepreneurs elsewhere include (1) a program in Great Britain that allows unemployed workers to continue to receive unemployment benefits while establishing businesses; (2) a program in France that allows unemployed workers to take their unemployment benefits in one lump sum to use as capital to start a business; (3) the Women's Economic Development Corporation in Minnesota which has helped nearly 100 women become entrepreneurs since 1984; (4) use of Job Training Partnership Act Title III funds in Ohio and Texas to provide training in entrepreneurship to dislocated workers; and (5) a Wisconsin program that trained 16 economically disadvantaged participants to start their own businesses. A model entrepreneurial training program could focus on individual creation of a business plan with the use of several existing community programs to provide supplemental services and support. Entrepreneurial training can be particularly relevant for professionalizing the skills of the self-employed; the field of family day care is a good example. (The final section summarizes issues surrounding entrepreneurial training in general and those specifically related to day care.) (YLB)

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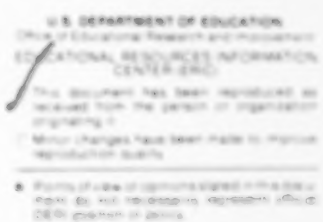
EMPLOYMENT AND TRAINING POLICY PAPER NO. 3

THE APPROPRIATENESS OF ENTREPRENEURIAL TRAINING IN WISCONSIN'S EMPLOYMENT AND TRAINING SYSTEM



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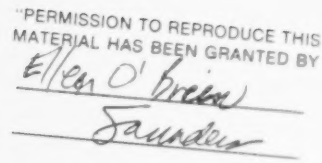

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EXECUTIVE SUMMARY

The Appropriateness of Entrepreneurial Training in Wisconsin's Employment and Training System

Entrepreneurial training and its potential role in attacking the problems of poverty and unemployment has recently received increased attention at the state and national level. The Wisconsin Strategic Development Commission's 1985 Final Report declares, "Entrepreneurial training should be treated as a legitimate skill which creates jobs." In another area, the Report returns to this theme: "Opening the door to entrepreneurship to traditionally excluded groups is very important to achieving equality of opportunity in our society." The Governor's Employment and Training Mission and Goals has as one specific objective that the Department of Industry, Labor and Human Relations (DILHR) identify model entrepreneurial training programs in order to enhance the potential for future jobs in small businesses. On the national level a bill introduced in Congress last spring by Senator Gary Hart (Colorado) and Representative Ron Wyden (Oregon) proposed pilot projects to allow a limited number of recipients of Unemployment Insurance (UI) to become entrepreneurs.

The purpose of this paper is to provide a background and a focus for further discussion of entrepreneurial training in Wisconsin by:

1. surveying and summarizing literature about entrepreneurship and entrepreneurial training programs;
2. outlining a likely model for entreprenurial training;
3. discussing the problems and potentials of small businesses in relation to the employment and training system, and
4. suggesting some possible actions as well as identifying areas for further study and discussion.

The significant points in the paper can be summarized as follows:

- Small and very small businesses generated almost three-fourths of the net new jobs in Wisconsin between 1969 to 1976.

- The traditional definition of entrepreneur can be expanded to include the person who starts a small business as well as the person who is self-employed.

- Programs that have encouraged and/or trained entrepreneurs elsewhere:

  - Great Britain: unemployed workers can continue to receive unemployment benefits while establishing businesses.

  - France: unemployed workers can take their unemployment benefits in one lump sum to use as capital to start a business.

  - Minnesota: the Women's Economic Development Corporation (WEDCO) has helped nearly 100 women become entrepreneus since 1984.

- Ohio and Texas: both states are using Job Training Partnership Act (JTPA) Title III funds to provide training in entrepreneurship to dislocated workers.

- Wisconsin: Moraine Park Technical Institute's Beaver Dam Campus created a program that trained sixteen economically disadvantaged participants to start their own businesses.

. A model entrepreneurial training program could focus on individual creation of a business plan with the use of several existing community programs to provide supplemental services and support.

. Entrepreneurial training can be particularly relevant for professionalizing the skills of the self-employed - the field of family day care is used as an example of this.

The final section of the paper summarizes the issues surrounding entrepreneurial training, in general, and those specifically related to day care. Lastly, there are some recommendations for further study and an indication of some areas for possible action.

CHAPTER I INTRODUCTION

A. HISTORIC BACKGROUND

1. Economic Growth, Poverty and Unemployment

Despite the strong economic growth (6.8%) in 1984, and the continued, if more sluggish, growth in 1985, unemployment has remained at or above 7%. According to economist Walter Heller, one consequence of this situation has been an increased number of "discouraged" workers (1,231,000 nationwide). Discouraged workers are those who have exhausted their unemployment benefits but have so little expectation of finding a job that they cease to look. Discouraged workers are not officially counted as part of the unemployed but they make up part of the long-term unemployed.

There has been a major restructuring of the economy in the past decade or so. Employment in manufacturing and in government has declined significantly while that in service and retail trade has grown. Average wages and salaries have been highest in the manufacturing and government sectors. This differential growth pattern means that much of the new full-time employment is in the service and retail trade sectors which have lower average incomes. The restructuring has resulted from rapid technological change, increased foreign competition, changing consumer preferences and the impact of inflation on disposable income. The Dislocated Worker Study (Employment & Training Paper, 1986) documents one consequence of this, the loss of 11.5 million jobs between 1979 and 1984 due to plant closings and/or cut-backs. This change is also reflected in the historically high rates of unemployment during the 1980's. Another consequence is a widening gap between the richest and poorest groups. Walter Heller, in testimony to Congress (Congressional Record, Oct. 17, 1985) documents that the 1980's have seen a reversal of post-World War II trends - for the first time the percentage of total income going to the lowest 20% has declined while that going to the highest 20% has increased.

The overall incidence of poverty in the United States declined from 22% in 1960 to 12% in 1980, but since then has increased. According to a 1985 U.S. Census Bureau report, poverty rose to 15.3% in 1983 and was at 14.4% in 1984. The composition of the poverty population over this period has also changed. In 1959, women and children were 26% of those in poverty; in 1981, they were 50%. Female-heads-of-household are actually neither more nor less likely to be poor today than 25 years ago - in both periods a female's chances of being poor were about one in three. Since 1960, however, the numbers and percent of the elderly and of adult males who were poor declined while the relative proportion of women and children in poverty increased dramatically.

2. Unemployment Insurance and Aid for Dependent Children

Historically, the United States has provided Unemployment Insurance (UI) for the unemployed and Aid to Families with Dependent Children (AFDC) for women (or single fathers) and their children who were poor. Both programs

have their origins in New Deal programs of the 1930's. The original purpose of UI was to provide a basic income to unemployed workers in the short-term until they found new employment or were recalled from a layoff. AFDC (originally Aid to Dependent Children, ADC) was meant to provide temporary support for families where the primary wage earner, usually the father, was absent due to death, desertion, separation or divorce. Initially, it was conceived as an interim solution to the problem of survival for the family. The unspoken expectation was that the woman would remarry, or, with improving economic conditions, the absent father would return. Neither of these programs was expected to provide assistance on a long-term basis.

The period since the 1960's has seen a significant rise in the number of families dependent on AFDC. This is the result of the confluence of several social trends. One is the dramatic rise in numbers of female-headed households due to the increase in divorce and separation and the growth in the number of never-married mothers. A second trend is that more people are aware of, and are exercising their rights to, public assistance. There is less of a social stigma attached to being on welfare. The restructuring of the economy, particularly the decline in primary labor market jobs that require few academic skills, has reduced the options for many in poverty. Faced with the choice of only low-paying, dead-end jobs, many families find that AFDC is an economically rational solution to survival. Thus, there are more families turning to AFDC and an increase in length of time on AFDC.

The high unemployment rate, the increased numbers of long-term unemployed, the overall growth in poverty and the persistent incidence of poverty for female-heads-of-household, have all combined to cause a public re-evaluation of the structure and intent of both UI and AFDC. The focus has shifted from providing interim financial support to providing a bridge to employment, or re-employment. Employment has the benefit of reducing government expenditures for transfer payment programs while increasing revenues through the growth of the tax base. The increased sense of self-worth also benefits the individual. How can these programs be modified to better meet the current needs of their clients and of society? Can they be restructured to provide a bridge to employment?

B. MANPOWER PROGRAMS AND JOB GENERATION

1. Employment and Training Programs

One response has been to develop employment and training programs. Since 1962 there have been numerous government programs that were created to provide the training and/or retraining deemed necessary to enable people to obtain jobs. The programs are legion: Manpower Development & Training Act (MDTA), Job Corps, Supported Work, Work Incentive (WIN), Comprehensive Employment & Training Act (CETA) and Job Training Partnership Act (JTPA). The various employment and training programs have not had a substantial impact on the absolute numbers, or percentages, of people who are economically disadvantaged. (Programs that included significant public sector employment did have some impact; however, the impact was limited to the duration of the program.)

Despite the intervention of these programs, the problems of poverty and unemployment remain. This has led to a sense of frustration and discouragement with traditional approaches. Increasingly, proponents and critics have identified the need to link job training to job creation efforts. Unless that is done:

> . . . employment programs, even those coordinated with the private sector and economic development agencies, will continue to have primarily an employment redistribution effect (affecting who gets a job from a limited pool of existing jobs) and only marginally an employment generation effect (increasing the size of the job pool). The result will be a continued high level of unemployment, and the social and economic costs which accompany poverty and wasted human resources. -- E.G. Nadeau, CETA and Private Sector Job Creation (GETO, 1981)

2. Small Businesses

Much of the discussion about job creation has focused on the role of small businesses in the economy. A 1984 Department of Development (DOD) study of Wisconsin businesses found that small businesses (under 100 employes) and very small businesses (20 or less) accounted for 77% and 60%, respectively, of net new jobs created between 1969 and 1976. This is similar to the findings of several national studies. Studies by David Birch of Massachusetts Institute of Technology, by Michael Teitz of University of California-Berkeley, and by Catharine Armington and Marjorie Odle of the Brookings Institute, concluded that small businesses generated from 51% to 82% of all net new jobs created. Birch cautions that small businesses do not operate in a vacuum. The small businesses that have the best performance are suppliers to larger businesses. More recent figures are skewed by the recession in the early 1980's; however, the basic trend remains. From 1977 to 1981, only very small businesses consistently generated a net gain in jobs in Wisconsin. It is also possible that this growth is chiefly due to the poor performance of the manufacturing and government sectors during this period rather than to any greater intrinsic strength of small business.

Despite their strength in generating jobs, small businesses have a very high rate of failure. Studies vary greatly in the specifics (anywhere from 55% to 80% fail in three to ten years); whatever the "true" failure rate, it is clear that more than half do not survive. Dun and Bradstreet's annual surveys on why small businesses fail have pointed to poor management and/or poor planning as the major cause in over 70% of the failures. Money, or rather the lack of it, was a major factor in about 25% of the failures.

The strong role small businesses play in generating new jobs has encouraged policymakers to find ways to foster and support the development of more small and very small businesses. One element has been to develop training programs geared to helping people establish small businesses. Training can improve management and planning skills, two of the three major causes of failure. The University of Wisconsin's Small Business Development Center (SBDC) did a follow-up survey of the people who came to the SBDC for counseling in 1983. The businesses started, or maintained, by these people had a significantly lower failure rate, 10% of the normal rate. In Wisconsin both the Strategic Development Commission's Final Report and the Governor's

Employment and Training Mission and Goals describe the need to link entrepreneurial training to the existing employment and training system.

C. NATIONAL INTEREST IN ENTREPRENEURSHIP

On the national level there has also been much discussion of entrepreneurship. A number of things have contributed to this: the increased numbers of long-term unemployed, the growth of the numbers receiving AFDC, questions about the effectiveness of job training programs, the emphasis on the role of the private sector in providing employment, increased use of public-private partnerships and the strong performance of small businesses in creating jobs.

The bill introduced by Hart and Wyden, The Self-Employment Opportunity Act of 1985 (S. 1008, H.R. 1690) is another manifestation of this interest. As originally proposed, the bill would allow up to ten states the option to set up pilot projects to stimulate entrepreneurship among the unemployed. The exact design of each project would be left to the state; it could include either continuation of benefits during the start-up period, or providing benefits in a lump sum to be used as seed capital for the business. The bill seeks to encourage innovation and experimentation in entrepreneurship at the state level. The bill would limit participation to 5% of those receiving UI in the state. The bill's sponsors acknowledge that it is modeled on similar programs in Great Britain and France.

D. DEFINITION OF ENTREPRENEUR

Popularly, the term entrepreneur is used to describe a hustler who turns an idea into a major corporation. Ray Kroc (founder of McDonald's) or Steve Jobs (a founder of Apple Computer) are contemporary examples of this type. An article in The Wall Street Journal (May 20, 1985) summarizes some studies of the backgrounds and personalities of entrepreneurs. These studies identify some common characteristics: willingness to accept risk; drive to be in charge, self-confidence, creativity and acceptance of hard work. Obviously, a program can not be based on the expectation of producing these qualities. Increasingly, however, entrepreneur is also being used to describe a person who starts a small business, often a home-based business with few, or no, employes. It is this type of business that many people seem to have in mind when they talk about creating entrepreneurial training for the economically disadvantaged. From a training perspective, this latter definition is easier to deal with because it focuses on providing the skills needed by a person in business, not on personality traits. It should be kept in mind that a person starting even a small business needs some of these personality traits, also, particularly a willingness to take risks and to work hard. The Small Business Administration (SBA) and the SBDC have programs that train people in the skills necessary to run small businesses. There are a few programs in Europe and in a few states here that have used this type of entrepreneurial training for the unemployed and/or the economically disadvantaged.

CHAPTER II EXPERIENCE WITH ENTREPENEURIAL PROGRAMS

A. EUROPEAN PROGRAMS

A number of recent articles have described the programs in Great Britain and France. These programs link entrepreneurship with unemployment grants but each does it in a very different way. Both programs seem to be very successful, with about 70% of the businesses surviving after 18 months.

1. France

The unemployed in France may petition for lump sum grants of their unemployment benefits to be used as seed capital for new businesses. The business proposals are screened carefully before the grant is approved. The maximum grant available is $4,300. Entrepreneurs are eligible for a bonus for any additional jobs created within six months. France offers "management shops" that provide training in various business skills for entrepreneurs. There is also a network of 1,500 retired executives who volunteer their time and are available to form "SWAT" teams to aid businesses that are in trouble. Since the program's start in 1979, it has had 135,000 participants. Sixty percent of the businesses started by these participants survived the critical first year.

2. Great Britain

Great Britain's Enterprise Allowance Scheme helps the unemployed who wish to establish small businesses. To apply a person must have been unemployed for at least 13 weeks, must raise $1250 as capital for the business and must attend a "scaring-off" session that describes the risks and difficulties of entrepreneurship. Those who make it through the screening process are entitled to regular weekly benefits (maximum of $45) for up to a year while establishing their business. The Manpower Services Commission (Britain's counterpart of Job Service) also runs training sessions in business skills. Half of the 43,145 individuals who have taken advantage of this opportunity report they would not have started a business without government support.

B. U.S. PROGRAMS

1. Small Business Administration, Small Business Development Centers

In the United States, training programs for people interested in starting a small business have been run by the Small Business Administration (SBA) or university connected programs such as the Small Business Development Centers (SBDC) at several University of Wisconsin campuses. These programs have not

been targeted to any particular segment of the population. There are a few programs that have directed entrepreneurial training towards the economically disadvantaged and/or the unemployed. Though two of these programs started under CETA, the majority have used JTPA funds for dislocated workers.

2. Programs Under CETA

The earlier CETA program was created by the Hawaii Entrepreneurship Training and Development Institute (HETADI) in 1977. In a two year period, HETADI trained over 200 CETA participants. Of those trained, over 50% were in business by the end of the training. One study showed that between 1978 and 1980, 69 HETADI graduates went into business. Of these 69, 58 were still in business in 1982. There is no information on the types of businesses started or the amount of income generated. The cost of the training program was about $2000/trainee.

STIA (the name means stone in Greek) Systems and Associates began entrepreneurial training in 1981 in Florida using CETA funds. Since then, it has developed programs in Pennsylvania, Michigan and New Jersey. These programs have been funded with JTPA money, under Titles II and III. The Employment and Training Reporter (10/23/85) carried a summary of STIA's work along with the claim by STIA's owner that "60% of the graduates (since 1981) have succeeded so far." The Reporter does not explain what STIA defines as success. There appear to be no independent evaluation of STIA's programs.

3. Women's Economic Development Corporation

In Minnesota, the Women's Economic Development Corporation (WEDCO) has worked since 1984 to assist women interested in self-employment. Of the 600 it has counseled, 93 have begun new businesses. Some 20% of WEDCO's clients were receiving AFDC, and about 17% of those starting new businesses were AFDC recipients. Of those clients who started a business, 67% earned $10,000 or less, and another 15% earned between $10,000 and $15,000 from their businesses.

a. Training WEDCO relies on self-selection as a screening device. The training program that WEDCO has designed appears to be similar to ones used by HETADI and STIA. It is built around the creation of a business plan and the skills needed to produce such a plan. There is a series of homework assignments; failure to complete one effectively screens out those who are having second or third thoughts about the idea. By the end of the training, the participant's plan is a product that she can take to a bank as a basis for a loan application. Typically, the business idea is one that requires only a small amount of capital for start-up. (Loans average between $10,000 and $12,000).

b. Capital Participants are expected to rely on existing financial institutions for start-up capital. WEDCO has worked with the largest bank in Minneapolis to ensure that the needs of WEDCO clients and those of the bank are both being met. The bank has been very enthusiastic about the

professionalism of the WEDCO training. The bank's participation in this program has brought it a lot of very positive (and free) publicity. WEDCO also has its own loan fund of $300,000 as a back up source. Of 130 loans, 105 are with regular banks (all but one of which are current) and 25 are from WEDCO funds. Although there is no formal follow-up program, WEDCO does check at least quarterly on the progress of a business once it is set up. It keeps closer contact with those which have loans from its own funds.

4. Entrepreneurship and AFDC Recipients

WEDCO participants who are receiving AFDC grants retain eligibility by establishing a revolving line of credit for the business. The participant brings the bills in every two weeks and WEDCO pays them. This arrangement allows the client to continue receiving the AFDC grant until a positive cash flow is achieved.

Minnesota is now in the final stages of drafting its application for a federal waiver on AFDC. The proposal will have the state contract with WEDCO to provide entrepreneurial counseling and training for up to 200 AFDC recipients. Cost to the state will be about $200,000 (approximately $1000/participant). WEDCO estimates that a significant portion of the participants will actually establish their own businesses. A state survey of AFDC clients found that 37% had a specific business idea that they would like to explore. If the federal waiver is granted, Minnesota would be able to continue AFDC grants to the entrepreneur during the start-up phase.

In Flint, Michigan there is another very new project linking AFDC and entrepreneurship. The innovative part of this program is the approach to dealing with the problems of survival during the start-up phase. The program operates through a community development corporation (CDC). The CDC employs the women under an AFDC grant diversion to run their own businesses which are established as subsidiaries of the CDC. When a business is generating enough income to be viable, the woman buys it from the CDC using her earlier work as payment, and both the woman and the business become independent.

5. JTPA Title III Programs

A number of states have introduced entrepreneurial programs for dislocated workers under Title III of JTPA. Ohio and Texas run the most extensive programs; they have each allocated $500,000 to Title III programs. Most of the more ambitious programs are built around classroom training (usually 12 weeks) that requires participants to complete projects using related business skills; often the project is to prepare a plan for a business. These programs are budgeted at about $2500/participant. A few states run just an initial, one day, introductory workshop and then direct interested participants to existing programs run by the SBA or SBDC's. This latter approach is much lower in cost (under $1000/person).

All of these programs are new and many are still in the proposal stage; so there is no evaluation of their success or impact as yet. The programs use a variety of screening mechanisms ranging from self-selection to formal testing for entrepreneurial personality traits. There are few provisions for

follow-up services; Ohio did require program plans to include follow-up but did not provide funding for these services. A few programs do provide specific links to sources of seed capital; a few others utilize the services of established programs that give advice and counseling to small businesses.

One issue that Ohio struggled with was how to define placement in the context of performance contracting. Was placement completion of a business plan? or actually obtaining financing for a business? or the point where a business generated a positive cash flow? Ultimately Ohio developed criteria that defined a successful placement as a participant who had: 1) passed a test on entrepreneurial skills and techniques; 2) prepared a business plan; and 3) obtained financing for the business.

There is a question raised by these Title III programs. In Wisconsin, the dislocated worker population is predominately white (85%) and male (63%). If these Title III programs are the only entrepreneurial training programs targeted towards the unemployed and/or economically disadvantaged, will they serve to reinforce the existing dominance of white males in the ownership of small businesses?

C. PROGRAMS IN WISCONSIN

1. Be Your Own Boss, Moraine Park Technical Institute

There are also a few programs in Wisconsin that have provided entrepreneurial training to the disadvantaged. They are new and involve relatively few participants; so again it is difficult to assess their overall impact and quality. The most ambitious program was the Be Your Own Boss (BYOB) developed with JTPA funds at the Beaver Dam Campus of the Moraine Park Technical Institute in 1983. The project was to provide 1000 hours of training in business skills and also remedial instruction in basic educational skills where needed. It was initially developed under CETA and the original design included financial assistance to help participants establish a business. The change to JTPA funding caused this latter part to be dropped. Sixteen people participated in the initial program. A follow-up conducted four months after the end of the training found that eight of the sixteen (50%) were in business; five had started new businesses and three used the training to expand existing businesses. Six of the remaining participants found other employment.

There were problems in three areas that ultimately affected the success of BYOB. The biggest obstacle for participants, and ultimately for the program, was lack of funds, or access to funds, to capitalize planned businesses. Though two local banks were represented on the Advisory Board, the banks were not willing to provide loans.

Another part of the original project design was to have a small business incubator where participants could locate their fledgling businesses. (Incubators provide lower overhead, access to support services such as typing, bookkeeping and copying, and a support network - all of which increase a businesses chances of survival.) These plans were abandoned when negotiations for a particular building in downtown Beaver Dam fell through. The incubator idea was not pursued further because by that time the program administrators

had determined that only a few of the contemplated businesses needed that kind of setting.

Lastly, part of the program was to give participants field experience by assigning each a mentor in the same, or similar, area of business. The program operators were unable to implement this part because they could not locate business people to fulfill this mentor role.

In reviewing the experience of the first session, the program operators and the campus administrator felt that it had been less successful than they had hoped. In part this was due to their inability to provide all the supports that were part of the original project design. However, the lack of capital for the businesses was seen as the major problem for people eligible under JTPA. Moraine Park Technical Institute decided to run the project a second time but with only 70% of the spaces reserved for JTPA participants. These spaces went unfilled while there were more than enough applicants for the remaining places. From that point, the program has developed into a more general offering as a series of workshops, not targeted to any particular group.

2. Other Programs

Three other programs are currently being developed within Wisconsin's Vocational, Technical & Adult Education (VTAE) system, at Nicolet, North Central, and Southwest Technical Institutes. They are targeted at displaced homemakers and this is the first year for each program. Madison Area Technical College (MATC) has had a program for several years in which one part focused exclusively on home economics-related businesses. It is too early to make any judgments about these programs. They are, however, indicative of the interest that exists to create entrepreneurial training for non-traditional populations.

CHAPTER III ENTREPRENEURSHIP: ISSUES; A POSSIBLE MODEL

A. SUMMARY OF ISSUES

In considering the viability of entrepreneurial training some things must be kept in mind. The most important is the overall riskiness of any business. There are ways to reduce risk, but this does not eliminate the risks entirely. Inevitably, some businesses will fail. Allied to this is the fact that entrepreneurship is an appropriate training for only the small percentage of any population that are risk-takers - and of that percentage, only some will have a viable business idea, and the drive to carry it out. To summarize the negatives, entrepreneurial training is a risky strategy appropriate to a small proportion of people. Furthermore, even successful starts face uncertain financial status, at least in the beginning.

The countervailing considerations relate to job generation and private sector growth in the current economy. As described earlier, small, and particularly very small, businesses are the major sources of net new jobs in the economy. The Bureau of Labor Statistics reports that women and minorities are starting small businesses at increased rates. The number of black-owned businesses increased by 47% between 1977 and 1982; women-owned businesses increased by 39% in the same period. (Some of this increase may be a result of applying a different definition of what constitutes a business). However, women and minorities still lag far behind white males in number of businesses owned and in average net earnings. Average net income for self-employed males was $7,139; for self-employed females it was $2,200. The sectors of the economy where small businesses are especially prevalent, services and retail trade, are the only sectors which have shown positive growth in the last ten years. These are also the areas where businesses owned by women or minorities are most likely to be.

B. BLUEPRINT FOR A MODEL

Given the interest expressed in Congress at the national level and at the state level by the Strategic Development Commission and the Governor's Employment and Training Mission and Goals, it may be appropriate for Wisconsin to experiment with entrepreneurial training, possibly with limited pilot projects. This would allow for evaluation and refinement of the approach as more is learned. If the state decides to go further in this area, a viable model, based on the experiences of other programs, might look like this:

1. Program Model

- An outreach and screening procedure that focuses on:
  1) evaluation of personal strengths and weaknesses,
  2) full discussion of the problems of small businesses, and
  3) personal commitment to taking a risk.
- A training program with these components:
  1) classroom teaching of skills necessary to develop and carry out a business plan,
  2) actual development of a business plan which can be used as a basis for a loan application,
  3) assignment to a mentor (preferably in a business similar to the person's proposed one) for hands-on experience, and
  4) identification of financial resources and counseling services available within the community.
- Application to available capital sources for funding.
- Follow-up:
  1) continued financial support,
  2) 1:1 counseling, and
  3) support groups.
- Evaluation

2. Rationale

This model assumes that the training would incorporate resources available in the community including, but not limited to: VTAE institutions, SBA, SBDC, existing and proposed business incubators, community development corporations and executive advice services from the Service Corps Of Retired Executives (SCORE) and the Active Corps of Executives (ACE).

The model is based on the expectation that much of the start-up capital for the businesses would come from traditional lending sources. The advantage of this is two-fold. First, it does not require additional state funds or agencies for the investment. Secondly, and more importantly, the bank is a further screening device, weighing the viability of the proposal against other such ventures. If the proposals are sound, they ought to also be "bankable" in the real world.

However, lending institutions are renowned for their unwillingness to take risks, as well as for their skepticism about loan applications from women and/or minorities. For this reason it is important that any program work closely with local banks to develop a more receptive atmosphere. In situations where private banks reject a loan application, the applicant can be encouraged to apply to one of the alternative sources of capital that are available within the state. Some of these alternative sources are: Wisconsin Community Development Finance Authority (WCDFA), local development corporations, Community Development Block Grants, Economic Development Administration, etc. Each of these also has an evaluation procedure to decide whether a proposal should be funded.

Several parts of the model are geared to reduce the risk of failure by focusing on some of the causes of failure in other small businesses. The long, intensive screening procedure and the field experience serve to ensure that participants have a realistic view of what an entrepreneur's life is like. Developing a business plan will help the participant test the viability of his/her proposed business. Lastly, learning about and using the business support services that exist in the community gives the participant access to continued support.

There are other existing resources that could be used to augment or extend the model. The state has a few business incubators (in Fond du Lac, Milwaukee, Fox Valley and Madison) - and there are plans for several more. Incubators can provide auxiliary support services, lower overhead and a support network. All of these increase the likelihood of survival and success for a new business. Through SCORE and ACE, business executives offer their expertise to new entrepreneurs. SBA and SBDC are available for on-going, as well as start-up counseling. Identifying and using these resources during the training period would encourage the participant to continue using them after the follow-up period ends.

3. Issues Concerning Subsistence

Ultimately, the viability of an entrepreneurial program would be tied to the success of participants in establishing their own businesses. As Sen. Hart said "Every potential entrepreneur requires, at a minimum, a means for livelihood during the start-up phase of an enterprise." (Congressional Record, April 25, 1985.) This is especially critical for the population being discussed here since most prior subsistence needs were met through transfer payment programs.

Two different approaches for AFDC recipients have been tried that could be used as models. One group of programs has worked through community development corporations (CDCs). These CDCs have functioned essentially as employers under AFDC grant diversion programs. The small businesses set up by AFDC recipients are subsidaries of the CDC's until they are self-supporting. In this way, the AFDC recipient continues to receive financial support until his/her business is sufficiently well-established to provide an income. Then, the subsidiary relationship is ended and the business is cut loose to become fully independent.

A second approach is the one used by WEDCO in Minnesota. There, AFDC recipients arrange to receive the capital for their business as a line of credit rather than as a lump sum. This arrangement allows them to continue to receive AFDC benefits until the business actually generates an income.

A third possibility would be to apply for federal waivers to allow income maintenance clients to continue receiving benefits for some specified period after establishing a business. This is similar to the British Enterprise Allowance program, where entrepreneurs continue to receive their unemployment grants for up to a year after beginning their business. In this context it will be useful to follow Minnesota's experience in applying for an AFDC waiver. For recipients of unemployment insurance there is currently federal legislation introduced which will permit a similar arrangement. If the Hart-Wyden Self Employment Opportunity Act passes, it would waive UI requirements relating to availability for work and refusal to accept suitable work for participants in the pilot projects.

CHAPTER IV DAY CARE AS AN ENTREPRENEURIAL ENTERPRISE

A. DAY CARE CENTERS: GROWTH AND NEED

Day care centers are the type of small business that the entrepreneurial training described earlier envisions. In fact, the Department of Development (DOD) figures indicate that day care centers are one of the fastest growing segments of small businesses in the state. The challenging question to answer in determining whether or not establishing day care centers is logical and feasible for participants in employment and training programs is: Could the charges to users be kept reasonable while still providing adequate income to the staff?

There is a critical need for good quality, affordable child care. Figures from national studies done in the late 1970's indicate that there were 7.5 million children five and under whose mothers worked; of these 1.2 million were cared for in day care centers or regulated family day care homes. Many were in unregulated family day care homes. Experts estimate that up to 46% of the children of women who work full-time do not have identifiable child care arrangements (i.e. children are left unsupervised or under the care of an older sibling). A 1983 Bureau of the Census study showed that over 2 million women with children under five would increase the number of hours worked, or seek employment, if they could find satisfactory child care arrangements at reasonable cost (McAdoo & Parkam, 1985). Labor market projections show that women with young children will continue to enter the workforce at present or higher rates. Need for child care affects not only working mothers but also those who are attempting to enter the workforce through involvement in employment and training programs.

There is a common refrain about the need for child care in discussions of employment and training programs, of education programs and of economic development programs. The need for adequate child care is not solely a "women's problem." A National Demonstration site for dislocated workers (primarily males) found that the inclusion of a child care facility fostered a higher participation and retention rate.

B. PUBLIC AND PRIVATE SECTOR APPROACHES TO DAY CARE

There have been some tentative beginnings in confronting the issue of day care on the part of government and also by the private sector. The federal government has three major approaches to child care. It provides direct funds through Title XX of the Social Security Act to subsidize lower income families' purchase of child care services. Secondly, the federal government reimburses child care programs for money spent on food through the Child Care Food Program run by the U.S. Department of Agriculture. Finally, there is a variety of tax-based incentives to businesses to encourage the private sector to do more in the area of child care.

According to a 1984 Bureau of National Affairs Special Report entitled Employers and Child Care: Development of a New Employee Benefit, an employer may get tax benefits by providing on-site care, contracting with third parties to provide care, or reimbursing employes for child care expenses. There are additional tax benefits available for employers who operate their own child care centers.

Businesses have not rushed to take advantage of these incentives. In fact, those businesses that are doing something in the area of child care assistance refer to other "bottom line" considerations that led to their initial involvement. The key benefits these businesses see are: reduced turnover, lower absenteeism, advantages in recruitment of new staff, better staff morale, and favorable publicity.

Of the 1,500 businesses nationally who offer some type of child care assistance, only 200 directly support day care centers for their employes. Of those 200, nearly three-fourths are hospitals. In Wisconsin, of the nine businesses that have day care centers, seven are hospitals. Other forms of assistance are: information and referral systems; arrangements with particular centers to provide care at a reduced price for employes; complete payment for the costs of day care often through cafeteria benefit plans. (With cafeteria plans, employes may pick from several fringe benefits offered.)

C. STATE OF WISCONSIN DAY CARE PILOT PROJECT

Wisconsin has initiated a pilot project to establish a day care center for state employes. This will put it in the lead, along with such states as New York and Connecticut, in addressing the need for day care services. The center will address the problems of availability and quality, but not cost, as charges will be consistent with those at other centers in the area. (Weekly charges will be: $90 for infants; $75 for toddlers and $60 for preschoolers).

Using the state's pilot project as a model, the prospects for affordable care and adequate earnings are rather discouraging. Even with the state subsidy for rent and start-up costs, the fees required to cover on-going costs are still high. The state project is based on yearly salaries of $16,000 for the director, $11,000 for teachers and $8,000 for assistants, plus fringe benefits including health insurance. Salaries and fringes are the greatest portion of day care expenses. Even reducing salaries respectively to $13,600, $9,700 and $7,000 would only reduce fees to the $50-$80 range. (Compare several listings for teachers in a recent Wisconsin Career Employment Opportunities Bulletin. Starting salary for these positions was between $1493 and $1892 per month - or $17,900 to $22,700 for a year.) The fees charged are not insignificant and are comparable with those presently charged in the market-place. However, they are possible only with the state providing about $40,000 a year in subsidy for the center.

The other side of this issue is the training and skills needed to run a center and the return on the investment for that training to the state and the individual. State licensing statutes require that the director of a center have two years credit at an institution of higher education or 120-160 hours of approved training. In addition to professional responsibilities, the director will have to keep account of the finances, handle payroll and tax

records, and manage staff. Is it reasonable to base a government training strategy in the expectation that a person with all those abilities would - or should - be interested in a career that pays only $13,000 to $16,000 at best? This leads to the conclusion that, like the bumble bee who flies contrary to fact, the existing day care centers are not financially feasible. The major role for the state to play in these circumstances appears to be more closely allied to providing a means to subsidize cost rather than to providing training.

D. FAMILY DAY CARE

There are, however, greater possibilities in the field of family day care (home-based). One of the most critical areas of need is for infant care; this is also an area where family day care is more often preferred. Even Dane County, which is relatively well supplied with day care alternatives has a greater demand than supply for infant care. Community Coordinated Child Care (4Cs) of Dane County is running a JTPA project for the local Private Industry Council (PIC) to train participants to become providers of family day care services. The program appears to be a strong one and would serve as a useful model for other such projects. There are three advantages that flow from this program; it provides needed day care services; it provides participants with the skills for permanent employment; and it helps participants develop and refine better parenting skills.

1. Dane County JTPA Project

The 4Cs program is structured to provide the required classroom training, finances for start-up, a support network, and information about resources available within the community. The 4Cs coordinator does the initial screening of applicants to ensure that each participant is committed to going through with the program. Most of this screening is done through personal contact, though the applicant is also asked to evaluate the child care needs of the immediate neighborhood and talk with neighbors, landlord and the children in the household about this program. The purpose is to screen out the uncommitted and the unsuited. Once accepted into the program, the participant enrolls in a 20 hour course given at MATC on family day care. In addition, each participant works with an established family day care provider as a mentor to get actual experience and training. 4Cs also runs eight evening workshops for participants; these function to build a group-support network as well as dealing with specific issues surrounding family day care. The training at MATC and 4Cs includes information about insurance needs, licensing requirements, taxes and deductions, record-keeping and the reimbursable food program.

Once the training phase is completed, 4Cs assists in several ways to actually establish a family day care home. Participants have a grant of $300 to purchase toys and equipment, and they are encouraged to include their mentor in the planning and purchasing of these. 4Cs pays for the first year's liability insurance. Once established, a provider can take advantage of the range of services 4Cs has: monthly support meetings; an information and referral system for clients; help in participating in the U.S. Department of

Agriculture (U.S.D.A.) food reimbursement program; tax workshops, and a toylending library.

2. Issues

a. Earnings, State Regulations A provider who is certified can care for up to three children, and can expect to earn from $55-$65 per week per child (more for infants). Caring for more than three children would increase a provider's income, but it requires a state license. The State Family Day Care Center licensing requirements place heavy emphasis on the details of the physical layout of the home. The physical alterations necessary for acquiring a state license are often not possible, for renters, or not financially feasible, for low income homeowners. If a provider participates in the U.S.D.A. food program, he/she will be reimbursed for all the food and food-related costs incurred.

Under the best circumstances (full-time care for three children) the provider can earn above the minimum wage without incurring some of the work-related expenses a job outside the home would require. Still the earnings leave the provider close to the poverty line. There is the dilemma for policymakers of advocating training to participants to become professionals in the area of family day care - where there is a great need - but where the provider will still be earning a low wage.

One way to attack both the issues of day care needs and low earnings is to enable providers to care for more than three children. This would involve changes in the state licensing statutes. The question that needs to be addressed is whether the statutes can be modified so that more providers can qualify without sacrificing the state's standard for quality care. Changes in this area would allow family day care providers to care for more children, thus increasing their potential income while increasing the number of available child care spaces.

b. Expansion to the State To what extent can this program be replicated around the state? Only Milwaukee has another 4Cs, however, the skeleton of a service delivery network does exist throughout the state in the U.S.D.A.'s nutritional program. In order to receive reimbursement for food costs, a provider must develop monthly menus and is visited at least three times a year by a nutrition worker. The Wisconsin Early Childhood Association provides the staff for this. The nutrition worker, on home visits, provides general training and assistance as well as help with nutritional plans. With additional funds this staff could take on an expanded role in training and support services for family day care providers. The Wisconsin Family Day Care Association, which is fairly small at present, also could be used to expand services and training to many areas in the state.

c. Insurance There is a major hurdle looming - not only for family day care providers but for all day care providers. That is the problem of liability insurance. In the past, 4Cs has had a group policy that providers could buy. Last summer it was cancelled and no other insurance company was interested in writing such a policy. The Wisconsin Early Childhood Association and 4Cs worked throughout the summer with the State Insurance Commissioner's office and finally found a company that was willing to provide coverage - at three times the former price. This problem - unavailability and sharply escalating prices - will affect the availability and affordability of all forms of day care in the near future. The state can play an important role by using its resources to confront these two issues. At the very least, there is the need to explore the dimensions of the problem for the future and possible avenues for response.

CHAPTER V CONCLUSION

It is hard to decide exactly where entrepreneurial training fits within Wisconsin's employment and training system. As described earlier, there is a growing impetus at both the state and national levels to do something in this area. Admittedly, a pilot project could be developed that would use the services of existing programs and thus would not require a new administrative structure or large amounts of money. It is difficult, though, to estimate how successful such a project would be. The programs that are being used as models are, for the most part, new and involve very small numbers of participants. The information about these programs is mostly anecdotal; there is no independent evaluation or follow-up by which to judge their claims of success. The programs in France and Great Britain have a longer existence, but again there is a lack of information and evaluation.

Even the most enthusiastic supporters of this approach acknowledge that it is appropriate to only a small percentage of the population. A critical part of any pilot project then is an effective screening procedure; much of this will depend on how knowledgeable, realistic and perceptive the screeners are. One question to consider here is whether most of these few would start-up a business even without a specific program. In this connection it is worth noting that a survey of participants in Britain's Enterprise Allowance Scheme found that only 50% felt they would have attempted to begin a business without this particular governmental assistance.

The second critical element in a successful project would be access to capital. A variety of capital sources exist, but these need to be consulted as the project is developed to ensure that this capital would be available for participants who lack the usual resources to qualify for a loan.

The experience of WEDCO and Moraine Park's BYOB programs indicate that some participants already had the beginnings of a business, or a hobby that could become a business. They used the training provided to develop a more professional organization and financial basis for their business. This is also true when one looks at the field of providing family day care services. Part of what these programs have done is professionalize existing activities and skills. There is some value to this as it helps improve the participant's view of what he/she does as well as offer ideas of how to produce an income (as opposed to "pin money") from the activity. It is the difference between saying: "I am just a babysitter," and "I am a professional in the field of family day care services." There may be some benefits to the individual and to society in facilitating this kind of transition. Certainly, the skills needed to put a business on a professional basis are ones that are usable, and valued, in the primary labor market.

Many of the people in JTPA target groups have the skills, and quite often the experience, for self-employment (some common areas are: day care provider, house cleaning, lawn and yard care, general repair and fix-it, sewing and alterations, etc.). In these instances, entrepreneurial training could help to professionalize and upgrade existing skills as well as develop new skills. In bringing these activities out of the basement or back room, they can become a primary, rather than supplemental, source of income. For some, this type of training can stimulate the transition from self-employment to beginning a small business.

One major problem throughout this whole discussion has been definitional. For the SBA a small business is one that needs loans in the $50,000 to $500,000 range. The Census Bureau and the Internal Revenue Service were using different definitions when the former found that 6.3% and the latter, 23.3% of all sole-proprietorships were woman-owned in 1977. Despite these obvious differences, there is a strong tendency to lump all small businesses together particularly in discussions about entrepreneurship. This tendency obscures the fact that the training and skills needed may vary significantly depending on the size and kind of business involved. One consequence of this appears to be that the training needs, particularly of those who are self-employed, are not adequately met by the kind of training and counseling traditionally available to those who are starting small businesses. The existence of this gap in services is critically important in relation to the type of entrepreneurship being discussed here. A few Wisconsin VTAE institutions; Moraine Park, Nicolet, and Western Wisconsin, are beginning to identify and fill this need by providing workshops, conferences, and short courses geared to this particular segment of entrepreneurs.

If entrepreneurial training is done with JTPA funds and involves performance contracting, it will be crucial to define what constitutes placement before proposals are solicited.

The last issue to consider is what happens in cases where there is failure. Does a participant whose business fails have the right to return to an income maintenance program? This issue does not appear to be addressed in any of the literature; certainly there is no information on how either France or Great Britain has handled it. It is most likely that former recipients of AFDC would be able to reapply for aid. However it is less clear whether former UI clients would have any claim to further support. The Self-Employment Opportunity Act, as currently written, says nothing about this. The likelihood is that there would not be any rights to continued support. This is an issue which should be clarified before a project is begun and participants are recruited.

To summarize, this issue is hardly clear-cut. There are good reasons for going ahead with entrepreneurial training but there are also some significant reasons for hesitating, especially if the training is cast in terms of the traditional view of a small business. If, however, the concept of entrepreneurship is expanded to include self-employment, there are a few actions DILHR could take that might improve the entrepreneurial climate in the state, particularly for the disadvantaged. One clear need is to articulate the differences, in terms of training and skills, between self-employment and starting a small business. The second is to stimulate the development of training directed towards those needs. Lastly is the need to publicize to JTPA target groups the existence, relevance and value of such training sessions. Taken together these actions could increase entrepreneurial options for JTPA target groups, and others, but would not create misleading expectations that entrepreneurial training will produce great wealth for the individual, or the solution to the problems of unemployment and poverty in Wisconsin.

This paper is not intended to be either definitive or conclusive. It has attempted to survey and summarize the current state of knowledge about entrepreneurial training programs. Beyond that, it's purpose has been to propose some different (and hopefully more productive) ways of looking at entrepreneurship and to identify issues that need further exploration and discussion. The suggestions contained within the paper are to be viewed in that light and not as formal policy recommendations.

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